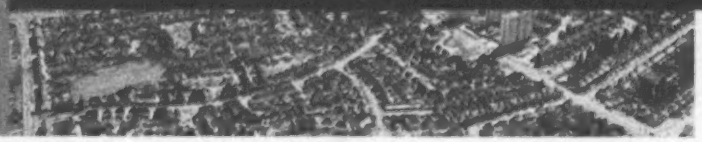
HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Charlottetown CA



Canada Mortgage and Housing Corporation

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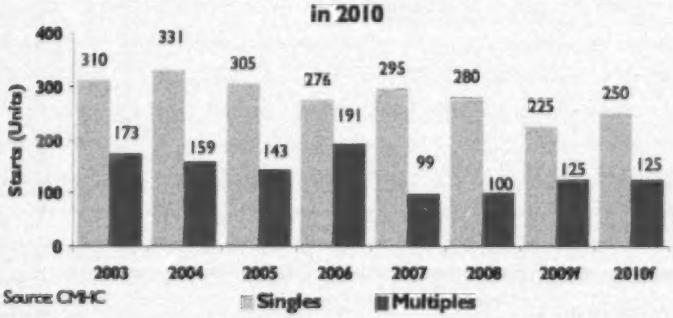
Housing Market to Return to More Sustainable Levels

For the past seven years, the Charlottetown housing market has been performing at an above average level. However, recent trends indicate that the market is returning to more sustainable levels. The most recent cycle of residential construction, which started in 2002, was spurred on by low interest rates, strong employment growth, positive migration, low vacancy rates and relatively low home prices. While some of these positive factors are still at work, especially low interest rates and in-migration, they will not be enough to fully offset the expected decline in single starts.

Employment in the Capital region is not expected to exceed the level set in 2008 with 33,000 people working, an increase of almost two per cent over the previous year. Data from the first quarter of 2009 revealed a slowing trend, as total employment declined by more than six per cent to 30,200 from 32,133 in 2008. This decline was not unexpected as the

Figure 1

Single Construction to Decline Before Rebounding in 2010



Source: CMHC

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local employment market is not immune to the current economic situation. As such, the current forecast is not calling for an overall increase in employment in 2009.

Positive net-migration is one of the key factors that contributed to the strong housing market over the past seven years. For the year 2007, which is the most recent data available, the population of Prince Edward Island was estimated at 138,627, an increase of 600 persons or 0.4 per cent from 2006. This increase in population was the result of both a natural increase and positive net migration. For the year 2007 the natural increase was 66 people as births slightly outnumbered deaths. The largest gain in population came from international migration, where the most recent data estimates that 695 immigrants chose Prince Edward Island as their new home in 2007. This figure represents a new high for net international migration. The main reason for this substantial increase in international migration is the increased effort that the province has allocated to this initiative. Through a combination of both programs and marketing, the province has been able to attract more people than ever before. The results seen in 2007 are expected to be the start of an upward trend and preliminary data indicate that 2008 will see an even larger inflow of people. As a result, the local housing market will benefit from this initiative as many of these households will relocate to the capital region, spurring demand for housing of all tenures.

While the aforementioned data on immigration is positive, it is for the province as a whole, and it is important to note that the Capital region consistently outperforms the province. For the last census period ending in 2006, the Charlottetown CA, which encompasses the entire urban area around the city, recorded a population growth of 1,391 people or 2.4 per cent. While there was some natural population growth during this period, the majority of the increase was due to in-migration. For the Charlottetown area it has been typical for approximately 70 per cent of the people moving to the Capital region to come from elsewhere in the province, while the remainder moves from other regions of the country. This ratio had remained fairly constant since the early 1990's, but since 2006 it has started to change. The reason for this is twofold, with both the movement of people to Western Canada and the recent influx of international immigrants. While the draw of the west is neither new nor unexpected, particularly among the 18-24 age group, the increase in international immigration is a relatively new phenomenon. As mentioned above, the influx of international immigration is expected to be even stronger in 2008 than 2007, due to the popularity of the province's programs with new immigrants. This will especially benefit the capital region as about 80 per cent of the people are settling in that area. This trend should continue to bolster the local housing market over the forecast period, as the population continues to grow.

Mortgage rates are expected to be relatively stable throughout 2009, remaining within 25-75 basis points of their current levels. Posted mortgage rates will increase very gradually during the course of 2010, reflecting a rise in government of Canada bond yields. For 2010, the one year posted mortgage rate will be in the 4.75-6.00 per cent range, while three and five year posted mortgage rates are forecast to be in the 5.00-6.75 per cent range.

While the local housing market has been performing well above average since 2002, it is expected to return to more sustainable levels this year and next due to the heightened level of economic uncertainty. While the trends of in-migration and low interest rates are expected to persist, it will not be enough to offset the declines from households

Figure 2

Average Price To Rise Over the Forecast Period

Source: PEI Real Estate Board & CMHC Forecast
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that will be taking a wait and see approach before they make a major purchasing decision.

Average MLS® Sale Price to Rise

The number of residential MLS® transactions in the Charlottetown area had been in the range of 500 to 650 units per year since 1998, with the last two years being at the upper end of this range. With the heightened level of uncertainty, it is expected that potential home buyers will become increasingly conservative in 2009, and as such sales are expected to decline this year before posting a moderate increase in 2010. One area where the local resale market will get a boost is the rising cost of new homes. Currently there is approximately a $60,000 difference between the price of a new home and an existing one. As such potential buyers of new homes, especially first-time buyers, will give the resale market a serious look before choosing to build.

There are however a number of factors working against the local market. Two of the most prominent items are fewer listings in the lower price ranges and recent price growth, albeit not as high as in the new home market. While the number of listings has been on the rise since 2004, there are very few listings under $150,000. This, combined with an average price that now tops $170,000 will limit some first-time buying activity. As such, some of the declines expected over the next two years will come from fewer first-time buyers entering the marketplace.

Average price growth is expected to slow in 2009 after jumping by more than five per cent last year. This easing is expected due to the large number of listings in the middle and upper price points, which will provide potential homebuyers with greater choice. Expect the average MLS® sales price to grow by less than one per cent in 2009.

New Home Construction Poised to Slow

New home construction in the Charlottetown CA will slow over the next two years, due to fewer single-detached starts. Row and semi-detached units for the homeownership market fared well in 2008, and are expected to remain prominent over the forecast period. Semi-detached units will benefit from strong demand from first-time home buyers while row units tend to be preferred by the empty-nester market. First-time buyers tend to show a preference for new homes compared to existing, however the rising cost of new single-detached homes is leading many to consider the semi-detached market as an alternative. As such, it is expected that the number of semi-detached and row units will match the 2008 level in each of the next two years.

Apartment starts rebounded in 2008 and are expected to perform well over the next two years, spurred on in part by the declining vacancy rate which reached 2.3 per cent in 2008. With the vacancy rate expected to stay near the two per cent mark over the forecast period, and in-migration expected to continue, rental apartment starts will remain at above average levels. Apartment starts will also get a boost from a number of proposed condo projects which are expected to get underway during the next two years. As such total multiple starts are expected to remain above the ten-year average over the forecast period, with 125 units in both 2009 and 2010 respectively.

Single starts have been declining slowly since 2004, and this trend is expected to continue in 2009. The expected decrease can be partially attributed to rising new home prices which have caused some potential buyers to opt for the resale market. However, of the homes being built, one can expect them to be larger and more elaborate, and this will push the average new home price to a record high. Expect single-detached starts to slow to 225 units in 2009, before rebounding slightly to 250 units in 2010.

Vacancy Rate to Decline in 2009

The vacancy rate is expected to post a moderate decline in 2009 due to a combination of steady demand for rental accommodations and a slowdown in rental construction over the past three years. This will result in the vacancy rate inching down to approximately 2.0 per cent in October of this year from 2.3 per cent during the same period last year. In October 2010, it is expected that the vacancy rate will decline once again to approximately 1.8 per cent, due to continued demand for new units supported by in-migration. Expect a larger than average rent increase in 2009 due to the 5.0 per cent allowable rent increase for heated units approved by the Island Regulatory and Appeals Commission in late 2008. This will result in average two-bedroom rents of $715 and $735 in 2009 and 2010, respectively.

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Forecast Summary Charlottetown CA Spring 2009							
	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales	634	650	595	575	-3.4	500	-13.0
MLS® New Listings	783	817	975	940	1,000	900	-4.3
MLS® Average Price ($)	153,549	166,244	175,231	174,000	-0.7	176,000	1.1
New Home Market							
Starts:							
Single-Detached	276	295	280	225	-19.6	250	11.1
Multiples	191	99	146	125	-14.4	125	0.0
Starts - Total	467	394	426	350	-17.8	375	7.1
Average Price ($):							
Single-Detached	186,774	192,477	207,361	192,500	-7.2	198,275	3.0
Median Price ($):							
Single-Detached	175,000	180,000	200,000	206,000	3.0	185,500	-10.0
New Housing Price Index (% chg.)	2.2	1.3	1.4	3.0	-	3.0	-
Rental Market							
October Vacancy Rate (%)	4.8	4.3	2.3	2.0	-0.3	1.8	-0.2
Two-bedroom Average Rent (October) ($)	638	659	672	715	-	735	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.28	6.90	6.70	4.80	-	5.29	-
Mortgage Rate (5 year) (%)	6.66	7.07	7.06	5.64	-	5.94	-
Annual Employment Level (,000)	32,175	32,450	32,925	32,500	-1.3	32,825	1.00
Employment Growth (%)	1.8	0.9	1.5	1.0	-	1.0	-
Unemployment rate (%)	7.6	6.6	7.6	7.4	-	7.6	-
Net Migration (P.E.I.) (1)	-111	417	868	500	-42.4	325	-35.0

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
(1) 2007 and 2008 migration data is forecasted

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